Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006

Message Text

UNCLASSIFIED

PAGE 01 PARIS 22978 01 OF 03 081916Z

47
ACTION EUR-12

INFO OCT-01 IO-10 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-02

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

FRB-01 INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06 LAB-04

SIL-01 L-03 H-02 PA-02 PRS-01 AGR-10 /121 W
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R 081808Z SEP 75
FM AMEMBASSY PARIS
TO SECSTATE WASHDC 2876
INFO USDEL MTN GENEVA
USMISSION EC BRUSSELS
USMISSION OECD PARIS
AMCONSUL BORDEAUX
AMCONSUL LYON
AMCONSUL MARSEILLE
AMCONSUL NICE
AMCONSUL STRASBOURG

UNCLAS SECTION 01 OF 03 PARIS 22978

PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A
TAGS: EALR, EFIN, EGEN, FR
SUBJECT: FRENCH FINANCIAL AND ECONOMIC DEVELOPMENTS

REF: PARIS 21759, AUGUST 25, 1975

1. SUMMARY. PRESIDENT GISCARD D'ESTAING UNVEILED GOF'S LONG-AWAITED ECONOMIC SUPPORT PROGRAM SEP 4, IN EFFECT CLOSING ALL-OUT CAMPAIGN AGAINST INFLATION LAUNCHED 14 MONTHS PREVIOUSLY. THOUGH EXPECTED FOR SOME TIME (AND APPARENTLY UNDER REVISION UP TO LAST MINUTE), FRENCH REFLATIONARY PACKAGE NONETHELESS SURPRISING IN ITS MAGNITUDE -- SOME $7 BILLION TO BE PUMPED INTO SAGGING FRENCH ECONOMY. IN TANDEM WITH
UNCLASSIFIED

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PAGE 02 PARIS 22978 01 OF 03 081916Z

PRESIDENT'S ANNOUNCEMENT CAME DECISIONS BY MONETARY

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006

AUTHORITIES DESIGNED TO BOOST SPENDING ON CONSUMER DURABLES AND TO REDUCE INTEREST RATES; LATTER PROMPTLY FOLLOWED BY ONE-POINT ACROSS-THE-BOARD CUT IN COMMERCIAL BANKS' TOTAL INTEREST RATE STRUCTURE. CCNSUMER PRICES ROSE 0.7 PERCENT IN JULY, BRINGING YEAR-OVER-YEAR PRICE INFLATION TO 11.1 PERCENT. END SUMMARY.

2. ANTI-INFLATION CAMPAIGN ENDED; GOF MOVES TO STIMULATE ECONOMY --

IN TELEVISED ADDRESS SEP 4, PRESIDENT GISCARD D'ESTAING PRESENTED GOF PLAN TO RE-STIMULATE FRENCH ECONOMY. TOTAL COST OF PROGRAM (PUT AT FF 30.5 BILLION -- ABOUT $7 BILLION -- OF WHICH SOME 5 BILLION FRANCS TO BE INJECTED DIRECTLY INTO ECONOMY AS STIMULANT TO CONSUMPTION) CONSIDERABLY LARGER THAN HAD BEEN ANTICI-PATED, EVEN UP TO HOURS BEFORE BROADCAST. THIS, COM-BINED WITH SUBSTANTIAL RELAXATION OF MONETARY POLICIES (SEE PARA 3 BELOW), INDICATES THAT GOF HAS CHANGED ITS BASIC ECONOMIC GOALS AND IN EFFECT ABANDONED ALL-OUT CAMPAIGN AGAINST INFLATION LAUNCHED ONE YEAR AGO. SPECIAL PARLIAMENTARY SESSION HAS BEEN CALLED FOR SEP 9-10 TO APPROVE GOVERNMENT'S ECONOMIC PROGRAM AND ANTICIPATED BUDGET DEFICIT OF SOME 50 BILLION FRANCS. (SEE PARIS 22911 FOR DETAILS OF PRESIDENT'S ADDRESS AND ECONOMIC-SUPPORT PROGRAM; ANALYSIS OF PROGRAM AND ITS EFFECTS ON FRENCH ECONOMY FORTHCOMING BY SEPTEL.)

GOF'S NEW ECONOMIC STRATEGY CLEARLY AIMED AT RECES-SION AND WORST UNEMPLOYMENT SITUATION IN FRANCE SINCE WORLD WAR II. OF COURSE, KEY QUESTION FOR GISCARD IS WHETHER REFLATIONARY PACKAGE CAN ACT QUICKLY ENOUGH TO DEFUSE MOUNTING POLITICAL OPPOSITION -- FOR GOF HELD OFF TAKING STIMULATORY MEASURES FOR REMARKABLY LONG TIME. OVER PAST 14 MONTHS, AS REPORTED PREVIOUSLY, GOF SPOKESMEN STUCK TO LINE THAT INFLATION MUST BE BROUGHT UNDER CONTROL BEFORE STRONG ANTI-RECESSIONARY MEASURES COULD BE TAKEN. THAT POSITION NOW OBVIOUSLY CHANGED, DESPITE FINANCE MINISTER FOURCADE'S ASSERTION AT SEP 5 PRESS CONFERENCE THAT VIGILANCE AGAINST INFLATION

WOULD CONTINUE WITH EXISTING PRICE-CONTROL MEASURES REMAINING IN EFFECT. WHETHER OR NOT REFLATIONARY PACKAGE WILL SPUR IMMEDIATE INCREASE IN TEMPO OF MONTHLY PRICE INFLATION IS SUBJECT OF MUCH DEBATE HERE BUT, GIVEN MAGNITUDE OF PROGRAM, SOONER OR LATER AN UPWARD INCIDENCE ON RATE OF INFLATION APPEARS LIKELY.

3. MONETARY, CREDIT POLICIES RELAXED FURTHER --

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006

IN CONJUNCTION WITH SEP 4 PRESIDENTIAL ANNOUNCEMENT
OF NEW ECONOMIC SUPPORT PROGRAM, BANK OF FRANCE ON SAME
DAY CUT OFFICIAL DISCOUNT RATE FROM 9.5 TO 8 PERCENT,
AND REDUCED MINIMUM RESERVE REQUIREMENTS FROM 11 PERCENT
OF DEMAND DEPOSITS TO A TOKEN 2 PERCENT.

COMBINED EFFECT OF NEW MONETARY MEASURES DIFFICULT
TO ASSESS. WHILE REDUCTION IN BANK OF FRANCE DISCOUNT

UNCLASSIFIED

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PAGE 01 PARIS 22978 02 OF 03 081852Z

47
ACTION EUR-12

INFO OCT-01 IO-10 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-02

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

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INFO USDEL MTN GENEVA
USMISSION EC BRUSSELS
USMISSION OECD PARIS
AMCONSUL BORDEAUX
AMCONSUL LYON
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UNCLAS SECTION 02 OF 03 PARIS 22978

RATE WAS LARGEST SUCH CUT IN NEARLY 30 YEARS, THE
NEW 8-PERCENT RATE REMAINS AMONG THE HIGHEST IN EUROPE.
ALTHOUGH CHANGES IN FRENCH CENTRAL-BANK RATE ARE

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006

ESSENTIALLY SYMBOLIC (ORDINARILY BANK OF FRANCE DOES NOT PROVIDE REFINANCING TO BANKS THROUGH DISCOUNT WINDOW), LATEST MOVE IS INDICATIVE OF GOF DESIRE TO SEE OVERALL RELAXATION IN FRENCH INTEREST RATES. FRENCH COMMERCIAL BANKS' PRIME LENDING RATES HAVE ALREADY BEEN CUT FOUR TIMES THIS YEAR (FROM ALL-TIME PEAK LEVELS WHICH PREVAILED THROUGHOUT SECOND HALF 1974), AND FOLLOWING LATEST BOF ANNOUNCEMENT ENTIRE SCALE OF FRENCH INTEREST RATES DROPPED BY ROUGHLY ONE POINT ACROSS-THE-BOARD' WHILE INTEREST ON CONSUMER CREDIT DECLINED TWO POINTS. AT SAME TIME,
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INTERBANK RATE FOR DAY-TO-DAY MONEY HAS CONTINUED STEADY DECLINE FROM NEARLY 14.5 PERCENT IN MID-1974 TO JUST UNDER 7 PERCENT RECENTLY.

NEAR-ABOLITION OF MINIMUM RESERVE REQUIREMENTS BY BANK OF FRANCE WILL NOT IN ITSELF RESULT IN MAJOR INFUSION OF FUNDS INTO ECONOMY, SINCE BANKS HAVE BEEN FREE TO BORROW BACK FROM BOF, AT INTEREST, FUNDS TO COVER THOSE FROZEN IN REQUIRED RESERVES. THUS ECONOMIC IMPACT OF THIS MOVE LIMITED TO SAVINGS REALIZED BY BANKS ON INTEREST PAYMENTS FOR BORROWED-BACK FUNDS (PLUS FOREGONE INTEREST ON MONEY DEPOSITED AS RESERVES IN NON-INTEREST BEARING ACCOUNT WITH CENTRAL BANK). SUCH SAVINGS COULD BE SUBSTANTIAL, HOWEVER, GIVEN AMOUNT OF MONEY -- ROUGHLY 19 BILLION FRANCS -- NOW FREED FROM RESERVE REQUIREMENTS.

ON SAME DAY AS ANNOUNCEMENT BY BANK OF FRANCE, NATIONAL CREDIT COUNCIL TOOK ACTION OF MORE FAR-REACHING POTENTIAL SIGNIFICANCE: SUBSTANTIAL RELAXATION OF TERMS FOR INSTALLMENT PURCHASES AND REDUCTION IN COST OF CONSUMER CREDIT. STRINGENT TERMS WHICH PREVIOUSLY APPLIED TO INSTALLMENT PURCHASES (UP TO 40 PERCENT DOWN WITH AS LITTLE AS 21 MONTHS TO PAY) HAVE BEEN EASED: NEW RULES PERMIT DOWN PAYMENTS OF ONLY 20 PERCENT OF PURCHASE PRICE, WITH REPAYMENT PERIODS EXTENDED TO 24 MONTHS FOR MOST DURABLE GOODS (FURNITURE, APPLIANCES, TELEVISIONS) AND TO 30 MONTHS FOR AUTOS. LIKEWISE, COST OF CONSUMER CREDIT, WHICH WAS REDUCED 3 POINTS ON JULY 1, WILL BE CUT ANOTHER TWO POINTS (TO 17.8 PERCENT) AS OF OCT 1. CEILINGS ON PERSONAL LOANS BY BANKS, IN EFFECT SINCE JULY 1973, HAVE BEEN ABOLISHED.

SUCH EASING OF ONCE-RESTRICTIVE MONETARY AND CREDIT POLICIES, COMBINED WITH DIRECT INFUSION OF 5 BILLION FRANCS INTO ECONOMY TO STIMULATE CONSUMPTION (SEE PARA 2), FAIRLY CERTAIN TO HAVE IMMEDIATE PSYCHOLOGICAL

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006

EFFECT ON LEVEL OF CONSUMER SPENDING, PARTICULARLY ON DURABLE GOODS. POST-VACATION PERIOD IN FRANCE IS TYPICALLY MARKED BY INCREASE IN RETAIL ACTIVITY (AND IN 1974 AMOUNTEDTO SOMETHING OF A "BOOM" IN CONSUMPTION);
UNCLASSIFIED

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PAGE 03 PARIS 22978 02 OF 03 081852Z

LATEST MEASURES CLEARLY DESIGNED TO REINFORCE THIS SEASONAL TENDENCY.

4. PRICES UP 0.7 PERCENT IN JULY --

CONFIRMING ADVANCE INFORMATION REPORTED REFTEL, INSEE (NATIONAL STATISTICS INSTITUTE) CONSUMER PRICE INDEX FOR JULY SHOWED 0.7 PERRCENT INCREASE OVER JUNE LEVEL. JULY PRICE RISE WAS IDENTICAL TO THOSE REGISTERED IN PRECEDING TWO MONTHS, AND BROUGHT YEAR-OVER-YEAR PRICE INFLATION TO 11.L PERCENT (COMPARED TO 15.2 PERCENT FOR CALENDAR YEAR 1974). OVER 3-MONTH PERIOD, OVERALL PRICE INDEX ADVANCED AT 8.8 PERCENT ANNUAL RATE.

FRENCH PRICE INFLATION
(3-MONTH PERCENT CHANGE IN CONSUMER PRICE INDEX; COMPOUNDED AT ANNUAL RATES)

NOV DEC JAN FEB MAR APR MAY JUN JUL

13.0 12.0 11.6 10.9 10.8 9.9 9.8 9.4 8.8

JULY PRICE INCREASES LED BY 1.4 PERCENT RISE IN PRICES FOR SERVICES' PRIMARILY REFLECTING INCREASES IN RENTS. RETAIL FOOD PRICES ROSE 0.6 PERCENT, PRICES FOR MANUFACTURED GOODS WERE UP 0.5 PERCENT. WHOLESALE PRICE FIGURES FOR JULY SHOWED 3.4 INCREASE FOR FOOD, 0.9 PERCENT INCREASE FOR MANUFACTURES.

UNCLASSIFIED

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PAGE 01 PARIS 22978 03 OF 03 081849Z

47

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006

ACTION EUR-12

INFO OCT-01 IO-10 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-02

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

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TO SECSTATE WASHDC 2878
INFO USDEL MTN GENEVA
USMISSION EC BRUSSELS
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UNCLAS SECTION 03 OF 03 PARIS 22978

5. WAGES INCREASE 5 PERCENT IN FIRST QUARTER --

LATEST FIGURES RELEASED BY LABOR MINISTRY INDICATE HOURLY WAGES INCREASED BY 4.9 PERCENT DURING SECOND QUARTER 1975, COMPARED TO 6.1 PERCENT RISE DURING SAME PERIOD IN 1974. OVER YEAR ENDING IN JULY, WAGE INDEX THUS ROSE 17.3 PERCENT (INCREASE WORKS OUT TO ONLY 13.3 PERCENT IF DECLINE IN NUMBER OF HOURS WORKED IS TAKEN INTO ACCOUNT). WAGE INCREASES DURING FIRST QUARTER, ACCORDING TO LABOR MINISTRY, ATTRIBUTED TO SIGNING OF SEVERAL WAGE AGREEMENTS WHICH TOOK EFFECT APRIL 1, TO WAGE-ESCALATION CLAUSES KEYED TO COST-OF-LIVING, AND TO INCREASE IN OFFICIAL MINIMUM WAGE.

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6. MONEY SUPPLY EXPANDED 6.4 PERCENT IN FIRST HALF - -

FRENCH MONEY SUPPLY, BROADLY DEFINED (M2), EXPANDED IN JUNE TO 687.0 BILLION FRANCS, A 3.4 PERCENT INCREASE FROM FF 664.3 BILLION AT END OF MAY. CURRENCY AND DEMAND DEPOSITS (M1) ROSE MORE THAN 6 PERCENT TO FF 375.3 BILLION AT END OF JUNE, WHILE NEAR-MONIES IN-CREASED MARGINALLY TO FF 311.7 BILLION. ON SEASONALLY

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006

ADJUSTED BASIS, M2 INCREASED 1.5 PERCENT IN JUNE TO FF 680.9 BILLION; OVER FIRST HALF OF YEAR, INCREASE IN M2 AMOUNTED TO 6.4 PERCENT (CORRECTING FOR ANOMALOUS FIGURES IN 1974 RELATED TO POSTAL STRIKE).

UNADJUSTED DATA ON COMPOSITION OF MONEY SUPPLY BY SOURCE SHOWED NET FOREIGN EXCHANGE RESERVES AT FF 44.7 BILLION (UP 4 PERCENT FROM MAY); CLAIMS ON PUBLIC SECTOR AT FF 79.0 BILLION (UP 21 PERCENT); AND CREDITS TO THE ECONOMY AT FF 585.2 BILLION (UP 2 PERCENT).

7. OTHER REPORTS SUBMITTED DURING THE PERIOD --

TELEGRAMS:
21978 MORE ON MONETARY REFORM AUG 27, L975
22320 LAST WORD ON MONETARY
"SUMMIT" AUG 29, 1975
22911 NEW MEASURES TO STIMULATE
FRENCH ECONOMY SEP 5, L975
AIRGRAMS:

A-392 FRENCH FOREIGN EXCHANGE HOLDINGS AUG 29, 1975
A-393 TRADE WITH COMMUNIST AREAS AUG 29, 1975
A-394 TRADE WITH SOVIET BLOC AUG 29, 1975
RUSH

UNCLASSIFIED

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Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006

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Margaret P. Grafeld
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EO Systematic Review
06 JUL 2006

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